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31ST ANNUAL REPORT

For the Year Ended April 30

1968

CHROMIUM MINING & SMELTING CORPORATION, LIMITED

Chromium Mining & Smelting Corporation, Limited

CHROMASCO

THIRTY-FIRST ANNUAL REPORT

For the Fiscal Year Ended April 30, 1968.

Annual Meeting of Shareholders

The Thirty-first Annual Meeting of the Shareholders will be held in the Conference Room of the Bank of Montreal, Main Floor, Stock Exchange Tower, Place Victoria, Montreal 3, Quebec, Canada, at 2:30 p.m. on Tuesday, July 16, 1968.

Officers

Noé A. Timmins, Jr.
Chairman of the Board

J. Thomas Timmins
President and General Manager

John E. L. Duquet, Q.C.
Vice President

R. G. Nesbitt, C.A.
Vice President - Finance

G. J. Burke, C.G.A.
Secretary-Treasurer

Directors

Alan M. Badian, C.A.
*John E. L. Duquet, Q.C.
Henry M. Marx
*J. G. Notman
R. S. Poister
*J. Thomas Timmins
Jules R. Timmins
*Noé A. Timmins, Jr.

*Member of the Executive Committee

Head Office

Sault Ste. Marie, Ontario

Executive Offices

3720 Place Victoria
Montreal 3, Quebec

General Counsel

Duquet, MacKay, Weldon, Bronstetter, Willis & Johnston
Advocates, Barristers & Solicitors
Montreal, Quebec

Auditors

Riddell, Stead, Graham & Hutchison
Chartered Accountants
Montreal, Quebec

Bankers

Bank of Montreal
Montreal, Quebec

Transfer Agents

Crown Trust Company
302 Bay Street, Toronto 1, Ontario
393 St. James Street West,
Montreal 1, Quebec

CHROMASCO

Financial Highlights

	1968	1967
Net sales	$19,809,150	$19,221,794
Earnings before income taxes and special item	$ 62,467	$ 1,638,616
Income taxes	$ 323,244	$ 815,460
Earnings (loss) before special item	$ (260,777)	$ 823,156
Net earnings for the year	$ 36,979	$ 1,605,971
Dividends on preference shares	$ 227,500	$ 227,500
Current assets	$ 7,791,066	$ 7,444,864
Current liabilities	3,985,099	3,247,066
Working capital	$ 3,805,967	$ 4,197,798
Ratio of current assets to current liabilities	1.96	2.29
Expenditure for property, plant and equipment	$ 694,354	$ 695,088
Shares issued and fully paid at April 30—		
Preference	32,500	32,500
Common	3,420,000	3,420,000

Directors' Report

To the Shareholders of
CHROMIUM MINING & SMELTING CORPORATION, LIMITED:

On behalf of your Board of Directors, we are pleased to submit the Thirty-first Annual Report of the Corporation and its subsidiary companies. This Report includes the consolidated balance sheet as at April 30, 1968, the consolidated statements of earnings, retained earnings and source and application of funds for the year ended April 30, 1968, and the report of the auditors.

Sales

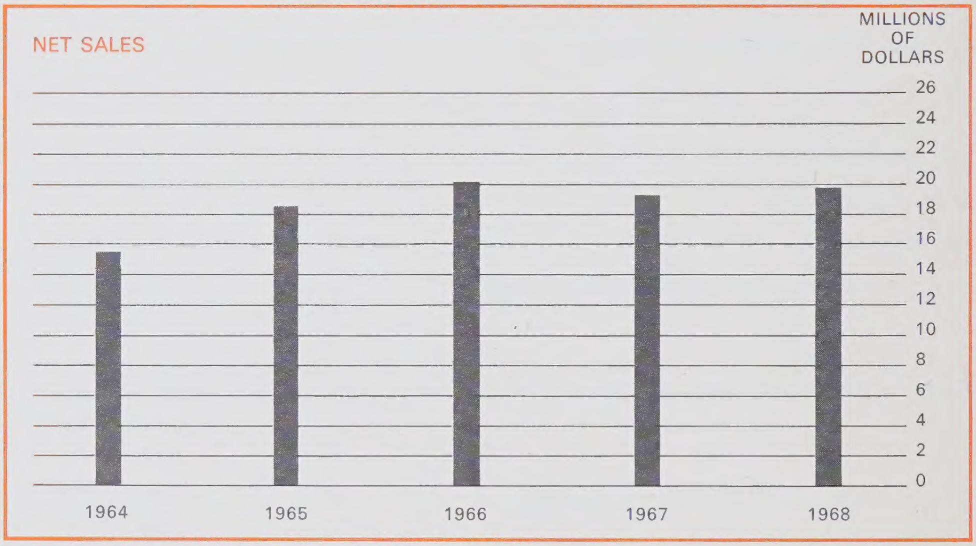
Consolidated net sales amounted to $19,809,150, representing an increase of 3% from $19,221,794 for the year ended April 30th, 1967.

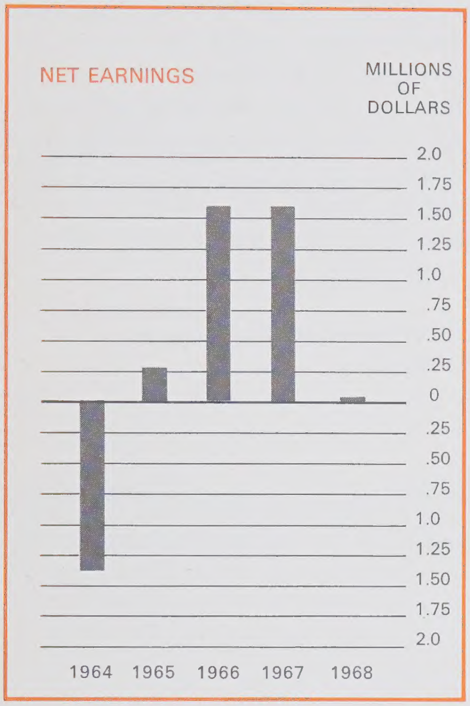
The ferroalloy industries of Canada and the United States continued to be subject to intense competition from sources outside the North American continent. In addition, sales of certain high-margin products in the United States were adversely affected by an easing in demand and an increase in competition from other domestic producers. In spite of these conditions, a modest increase in consolidated net sales was recorded, largely as a result of the Corporation's previously established programs of product diversification and development and an intensified sales effort.

Earnings

Consolidated net earnings, after all deductions and after giving effect to an income tax reduction resulting from the carry-forward of prior years' losses, amounted to $36,979 compared with $1,605,971 for the year ended April 30, 1967.

Such income tax reduction for the fiscal period under review was $297,756 compared with $782,815 for the previous fiscal period. As at April 30, 1968, there remained available to the United States subsidiary company a substantial loss carry-forward which may be used as a deduction in the calculation of the taxable income of that subsidiary for the purpose of determining its liability for income taxes in the United States for the fiscal periods up to April 30, 1970. There have also been less significant losses incurred by the Parent Corporation through April 30, 1968 which may be used as a deduction in the calculation of taxable income in Canada for the fiscal periods up to April 30, 1973. Such losses are subject to audit by the appropriate taxing authorities.





Earnings for the year reflected the impact of generally rising costs and the absence of any material improvement in selling prices. The serious inflationary trend, particularly in Canada, was a major contributing factor to increased costs, while intensified competition from sources beyond the confines of the North American continent precluded compensating increases in selling prices.

Earnings were also affected, particularly at the Beauharnois Plant, by lower production rates than in the previous year, downtime of production facilities to carry out major furnace repairs and excessive maintenance costs, as well as the sale of a greater proportion of low-margin products.

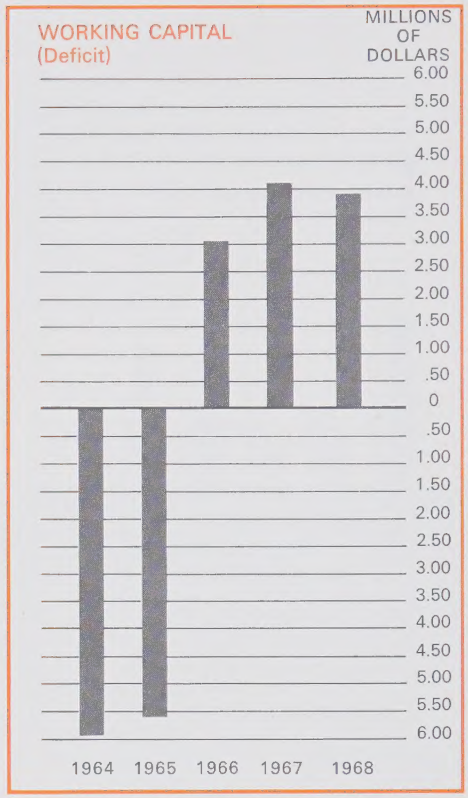
Working Capital

Working capital totalled $3,805,967 compared with $4,197,798 at the end of the previous fiscal year. Current assets were 2.0 times current liabilities as at April 30, 1968, and 2.3 times current liabilities as at April 30, 1967.

Arrangements were made with an affiliated company to extend until May 31, 1970 the maturity date of the note payable to it in the amount of $2,000,000. This has facilitated the retention of funds to implement planned capital expenditures.

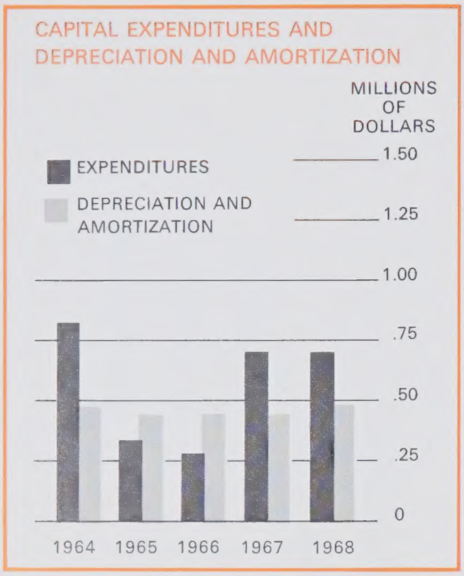
As in the previous fiscal year, dividends were paid currently on the outstanding preference shares of the Corporation.

The details of the changes in working capital during the year are set forth in the consolidated statement of source and application of funds which accompanies this Report.



Property, Plant and Equipment

Total expenditures on property, plant and equipment were $694,354 compared with $695,088 for the previous fiscal year. The program for capital expenditures continues to be concentrated on projects which will improve operating efficiency and plant productivity.



A major project has been the completion, during the year, of a new laboratory complex at the Memphis Plant, illustrations of which are displayed in this Report. This modern facility, located in a separate air-conditioned building, is recognized as one of the finest in the ferroalloy industry. It has been designed for optimum efficiency in the organization and flow of quality and process control tests and has the flexibility to take full advantage of future advances in analytical equipment.

In July 1967, the construction of a controlled atmosphere facility was completed at the Memphis Plant. This unit, which was designed and erected to meet the increased market demand for nitrided ferromanganese, represents another important step in your Corporation's plan to develop a fully integrated plant at the Memphis location capable of producing a wide range of ferroalloys. Nitrided ferromanganese was first developed in our Research Laboratory in 1962. This was followed by pilot plant production and test marketing. The product has now been widely accepted and our new facility is capable of meeting current and anticipated future market requirements.

Outlook

Current uncertainties make the forecasting of results for the new fiscal year difficult. We feel confident, however, that your Corporation will show a marked improvement in earnings, the extent of which will be dependent upon our success in offsetting higher cost trends.

Efforts are being made to check rising unit costs in order that your Corporation may remain competitive, preserve its markets and earn reasonable profits. These include a vigorous cost reduction program and improvements in operating efficiency, plant productivity and product diversification through a judicious capital expenditure program and extended technical studies.

The costs of manganese ore, chrome ore and other raw materials, which constitute major segments of our direct manufacturing costs, have been and will continue to be the subject of careful scrutiny.

Programs designed to meet the requirements of the Corporation for managerial and technical leadership were expanded during the year. These programs, which entail the recruitment of highly qualified personnel and the training and development of all personnel through educational assistance and management development courses, will be accelerated to meet the current and long-term growth plans of your Corporation.

Shareholders' Annual Meeting

The Shareholders' Annual Meeting will be held in the Conference Room of the Bank of Montreal, Main Floor, Stock Exchange Tower, Place Victoria, Montreal 3, Quebec, Canada, at 2:30 p.m. on Tuesday, July 16, 1968. Formal Notice of this Meeting, together with an Instrument of Proxy and Information Circular, is enclosed with this Report.

* * *

The Board of Directors wishes to extend its sincere appreciation to all employees for their loyalty and diligence in the discharge of their individual responsibilities during the past year.

On behalf of the Board,

Chairman of the Board

President and General Manager

June 26, 1968.

Production and Principal Products

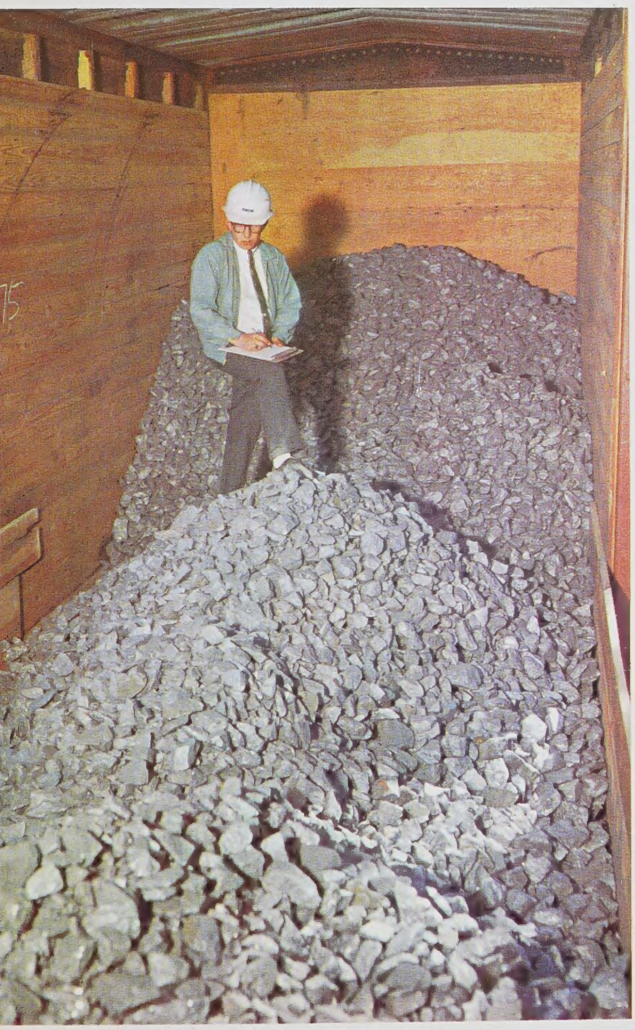
Plants
Beauharnois, Quebec
Smelter plant

Memphis, Tennessee
Smelter, refining and finishing plant

Silicon Alloys
50% Ferrosilicon
65% Ferrosilicon
75% Ferrosilicon
75% Ferrosilicon High Purity
85% Ferrosilicon
Magnesium Ferrosilicon
Sil-X

Manganese Alloys
Medium Carbon Ferromanganese
Nitrided Ferromanganese
Standard Ferromanganese
Silicomanganese
Man-X-1
Man-X-6

Chromium Alloys
Charge Grade Ferrochrome
Blocking Grade Ferrochrome
Low Carbon Ferrochrome
Ferrochrome Silicon
Chrom-X-4
Chrom-X-25-6.25
Chrom-X-25-12.5
Chrom-Sil-X
Chrom-X-05



Above—The final quality inspection of a carload shipment of alloy.

Top right—Casting alloy into chill molds.

Right—Transferring a tap of alloy after casting.

Research, Quality Control and Customer Service

Research and Quality Control Laboratories

Beauharnois, Quebec
Quality control

Memphis, Tennessee
Research and quality control

Sales Offices

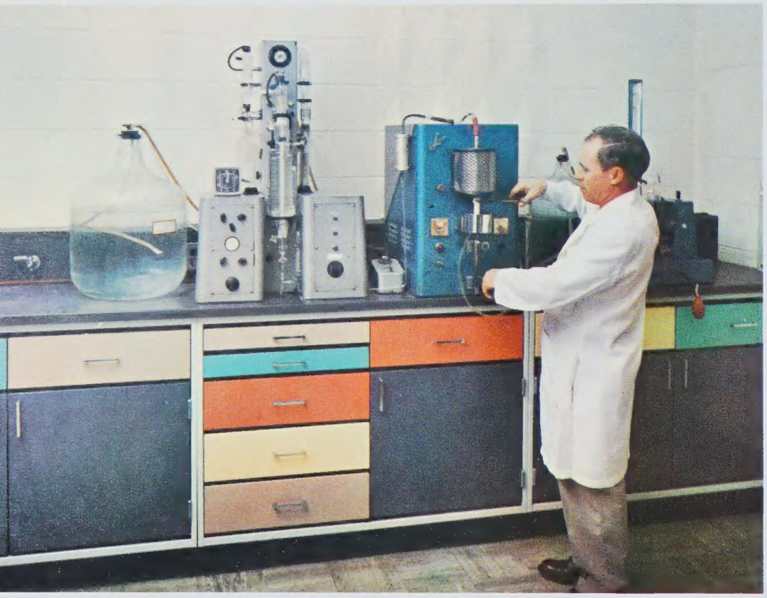
Montreal, Quebec
3720 Place Victoria,
Montreal 3, Quebec
Telephone (514) 866-5344

Chicago, Illinois
33 North Dearborn Street,
Chicago, Illinois 60602
Telephone (312) 263-1870

Pittsburgh, Pennsylvania
Three Parkway Center, 875 Greentree Road,
Pittsburgh, Pennsylvania 15220
Telephone (412) 921-2703

Warehouses

Sault Ste. Marie, Ontario
Hamilton, Ontario
Beauharnois, Quebec
Buffalo, New York
Birmingham, Alabama
Pittsburgh, Pennsylvania
Chicago, Illinois
Memphis, Tennessee
Detroit, Michigan



Above—Analyzing alloy for carbon by conductometric method.

Top right—Impurity analysis of the alloy by the new atomic adsorption instrument.

Right—Chemical laboratory facilities for analyzing raw materials and alloys.

Consolidated Statement of Earnings

For the year ended April 30, 1968

	1968	1967
Net sales	$19,809,150	$19,221,794
Cost of goods sold and selling, administrative and general expenses (Note 7)	18,762,168	16,715,403
Earnings from operations before the undernoted	1,046,982	2,506,391
Other expenses		
Interest on long term indebtedness	110,000	110,000
Other interest	208,809	151,691
Employees' pension funds (Note 8)	185,247	156,120
Depreciation and amortization	480,459	449,964
	984,515	867,775
Earnings before income taxes and special item	62,467	1,638,616
Income taxes	323,244	815,460
Earnings (loss) before special item	(260,777)	823,156
Income tax reduction resulting from carry-forward of prior years' losses (Note 9)	297,756	782,815
Net earnings for the year	$ 36,979	$ 1,605,971

Consolidated Balance Sheet — April 30, 1968

Assets

Current assets	1968	1967
Cash	$ 137,218	$ 28,197
Accounts receivable	2,794,681	1,876,425
Inventories		
Raw materials and supplies at average cost which approximates replacement cost	1,026,685	1,181,260
Work in process and finished products at lower of average cost or net realizable value	3,554,451	4,063,013
Prepaid expenses	278,031	295,969
	7,791,066	7,444,864
Property, plant and equipment (Note 3)		
Land, buildings, leasehold improvements and equipment at cost	11,196,669	10,588,059
Accumulated depreciation and amortization	5,252,031	4,836,819
	5,944,638	5,751,240
	$13,735,704	$13,196,104

Signed on behalf of the Board:
HENRY M. MARX, Director.
J. THOMAS TIMMINS, Director.

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Liabilities

Current liabilities	1968	1967
Bank indebtedness (Note 4)	$ 1,974,353	$ 1,348,756
Accounts payable and accrued liabilities	1,830,630	1,687,352
Accounts payable to affiliated companies	1,000	39,204
Dividend payable on preference shares	56,875	56,875
Income taxes	26,151	42,542
Taxes other than income taxes	96,090	72,337
	3,985,099	3,247,066
Note payable to affiliated company		
Five and one-half per cent note due May 31, 1970	2,000,000	2,000,000
Shareholders' equity		
Capital stock		
Preference shares		
Authorized		
32,500 7% cumulative redeemable preference shares of $100 par value (redeemable at $103.50)		
Issued and fully paid		
32,500 shares	3,250,000	3,250,000
Common shares		
Authorized		
6,000,000 common shares of no par value		
Issued and fully paid		
3,420,000 shares (Note 5)	2,956,252	2,956,252
Retained earnings (Note 6)	1,544,353	1,742,786
	7,750,605	7,949,038
	$13,735,704	$13,196,104

Consolidated Statement of Retained Earnings

For the year ended April 30, 1968

	1968	1967
Balance at beginning of year	$1,742,786	$ 418,011
Net earnings for the year	36,979	1,605,971
Exchange adjustments applicable to prior years	—	18,045
	1,779,765	2,042,027
Income tax adjustments applicable to prior years	7,912	71,741
Dividends on preference shares	227,500	227,500
Balance at end of year	$1,544,353	$1,742,786

Consolidated Statement of Source and Application of Funds

For the year ended April 30, 1968

	1968	1967
Source of funds		
Net earnings for the year	$ 36,979	$1,605,971
Depreciation, amortization, and other charges against earnings which did not require the outlay of funds	492,624	457,231
Total from current operations	529,603	2,063,202
Sale of property, plant and equipment	8,332	16,177
	537,935	2,079,379
Application of funds		
Investment in property, plant and equipment	694,354	695,088
Dividends on preference shares	227,500	227,500
Income tax adjustments applicable to prior years	7,912	71,741
	929,766	994,329
Increase (decrease) in working capital	$ (391,831)	$1,085,050
Working capital at beginning of year	$4,197,798	$3,112,748
Increase (decrease) in working capital for the year	(391,831)	1,085,050
Working capital at end of year	$3,805,967	$4,197,798

Notes to Consolidated Financial Statements — April 30, 1968

1. All of the subsidiary companies are wholly owned and their accounts are reflected in the consolidated financial statements of the Corporation.

2. The consolidated financial statements are expressed entirely in Canadian currency. Foreign currencies have been translated into Canadian currency on the following basis:

   Current assets and current liabilities at the rates of exchange prevailing at April 30, 1968;

   Property, plant, equipment, accumulated depreciation and related depreciation provisions charged against earnings, at the rates of exchange prevailing at the dates of acquisition of the assets;

   Items entering into net earnings (other than depreciation provisions) at the average rates of exchange prevailing during the year.

3. A summary of the cost of property, plant and equipment and accumulated depreciation and amortization is as follows:

	April 30, 1968		April 30, 1967	
	Cost	Accumulated depreciation and amortization	Cost	Accumulated depreciation and amortization
Land	$ 122,773	$ —	$ 52,381	$ —
Buildings and property improvements	2,785,783	861,563	2,620,311	797,988
Machinery and equipment	7,938,228	4,282,863	7,456,319	3,942,666
Leasehold improvements	269,326	107,605	256,685	96,165
Construction in progress	80,559	—	202,363	—
	$11,196,669	$5,252,031	$10,588,059	$4,836,819

4. Bank indebtedness is secured by pledge of accounts receivable and inventories.

5. Pursuant to the Corporation's Stock Option Plan established in 1962, the Corporation has granted options to certain officers and employees to purchase common shares of the capital stock of the Corporation. As at April 30, 1968, options in respect of 39,700 shares were outstanding at prices ranging from $1.23 to $1.95 per share with expiry dates ranging from June 1969 through April 1973.

6. A plan for the refinancing of the Corporation was implemented during the year ended April 30, 1966 providing, inter alia, for the elimination of the then existing deficit.

7. The aggregate direct remuneration paid to the Directors and Senior Officers of the Corporation, by the Corporation and its subsidiary companies whose financial statements are consolidated with those of the Corporation, amounted to $153,980 for the year ended April 30, 1968 and $155,768 for the year ended April 30, 1967.

8. Pension costs charged against earnings during the year under review include amounts paid or payable to trust funds in respect of current and past services. Past service costs are being funded over periods of twenty-five (25) years ending in 1990 for the Parent Corporation's pension plan and forty (40) years for the United States subsidiary company's pension plans. The total unfunded past service liability at April 30, 1968, as determined by independent actuaries, was estimated at approximately $974,000. The unfunded past service liability is subject to continuance of the pension plans and the terms and conditions of the pension plan agreements.

9. The United States subsidiary company has a substantial unused loss carry-forward from 1964 and 1965 which may be used for United States income tax purposes to offset taxable earnings of that subsidiary in the period 1969-1970. Such loss carry-forward is subject to audit by the taxation authority concerned.

10. The Corporation has long-term lease agreements for office and production facilities terminating in 1976 and 1983 respectively. Annual rental charges aggregate approximately $275,000.

RIDDELL, STEAD, GRAHAM & HUTCHISON
CHARTERED ACCOUNTANTS

630 DORCHESTER BLVD. W.
MONTREAL 2

Auditors' Report

To The Shareholders of
Chromium Mining & Smelting Corporation, Limited

We have examined the consolidated balance sheet of Chromium Mining & Smelting Corporation, Limited and subsidiaries as at April 30, 1968 and the consolidated statements of earnings, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the companies as at April 30, 1968 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Riddell, Stead, Graham & Hutchison

May 31, 1968

CHROMIUM MINING & SMELTING CORPORATION, LIMITED
and Subsidiary Companies

CHROMASCO

Supplier of

Quality Alloys

to the

Metals Industries

since 1934

PRINTED IN CANADA

CHROMASCO